

# The Corporation Trust Company Journal

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REGULATIONS  
of the  
United States Treasury Department  
RELATIVE TO  
The Federal Corporation Tax

ISSUED IN

NEW YORK, BOSTON, PHILADELPHIA, CHICAGO AND ST. LOUIS

**The Treasury Department's Explanation**  
**OF THE**  
**Federal Corporation Tax Law**  

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**Regulations**  
**Under Which the Law Will Be Administered**  

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Throughout the widespread discussion of the Federal Corporation Tax Law there has been evidenced a great deal of uncertainty as to the exact meaning of its provisions. Corporation lawyers, accountants and corporate officers have been at loss to place a clear definition on many of its terms. For this reason the rulings of the United States Treasury Department on the law have been anxiously awaited in the hope that they would clarify some of its obscurities. We present on the following pages a complete copy of the regulations issued by the Commissioner of Internal Revenue relative to the law, and which will govern the internal revenue collectors in receiving reports and collecting the tax. These regulations are preceded by a statement issued to the newspapers by Secretary of the Treasury MacVeagh, and which, in effect, gives the government's interpretation of the act, and a definition of such terms as "gross income" and "net income," as well as explaining the plan formulated by the Internal Revenue Commissioners for the administration of the law.

Secretary MacVeagh's statement is as follows:

**CORPORATION EXCISE TAX**  

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**PREPARATION OF BLANKS AND REGULATIONS.**

In the preparation of blanks and regulations for the administration of the corporation excise tax, provided for in section 38 of the tariff act of August 5, 1909, the first question was to ascertain the real intent of the law. After ascertaining the real in-

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tent of the law, the problem was then to so prepare the forms and regulations as to carry out that intent and at the same time avoid, as far as consistent, unnecessary and unreasonable interference with ordinary practices of business. The standard adopted in making the regulations was that they should be fair, just, and reasonable to the taxpaying corporations as well as to the Government.

A study of the act discloses clearly that the intent of the law is as follows:

1. That the law is a revenue measure and should be construed liberally for the purpose of producing revenue for the Government.

2. That the real intent of the law is to collect a tax of 1 per cent on the *net income*, less \$5,000 of the individual corporation, joint-stock company, or association liable to the tax.

In order to clearly understand the intent of the law a few primary definitions are essential:

#### NET INCOME

The term "net income" as used in this law means not only net profits arising from the operation of the principal business of the corporation, but all items of income received from other sources, such as investments, holdings in other companies, and businesses, etc. The expression "net income" is used because there can be no question as to its embracing amounts of income received from these outside sources, whereas there might be some question as to whether or not such items would be included in the expressions "net profits" or "net earnings."

#### GROSS INCOME.

In the same manner the term "gross income" includes gross profits, the expression being used because there can be no question but what it embraces all items of income received by any corporation from any source, while there might be some question as to whether "gross profits" or "gross earnings" would embrace such items.

A great amount of adverse criticism of this law is due to misapprehension of the proper definitions of these terms. The opinion was advanced that because "gross income" was not "gross profits" it must be "gross receipts," and that, in the same way, because "net income" was not "net profits" it meant "net receipts." An examination of the law, however, will show that if gross income meant gross receipts the statutory deductions therefrom would not leave net receipts, but would leave merely an arbitrary sum. It also appeared from calculations that if these interpretations were given to the law from mercantile and

manufacturing companies alone the amount of tax received would be many times the sum which was estimated to be collected from all corporations, joint-stock companies, and associations of whatever nature.

It is clear, therefore, that the purpose of the law was not to put a tax on receipts, but a tax on profits; and that the terms "gross income" and "net income" are used because, while they are practically identical with "gross profits" and "net profits," they are yet more embrasive and consequently permit a more comprehensive administration of the law.

The law requires that the return from every corporation, joint-stock company, and association liable to the tax shall show the "gross amount of the income \* \* \* received during the year from all sources," and authorizes certain deductions such as "ordinary and necessary expenses actually paid out of earnings in the business and property of such corporations \* \* \* within the year; all losses sustained during the year; amount of interest actually paid within the year; amount paid by it within the year for taxes; amount received within the year as dividends upon stock of other corporations liable to this tax, etc."

Very careful consideration has been given to these expressions in order to determine what evidence shall be required in order to determine what items are to be considered as "income" in calculating "gross income," and what items should be allowed as deductions under the language of the law. An impression has obtained in some quarters that no item should be considered in making up the account of the corporation, either as income or a deduction, unless its receipt or disbursement was evidenced by an actual cash transaction. It was owing to this interpretation placed on the law that a great number of accountants throughout the country declared that the law was impossible of administration, and if their interpretation of the law had been correct, there would indeed have been the most serious difficulty.

Upon first reading the law and studying the authorities relating to the language used, it would appear that the words admit of no interpretation other than that an item must have been evidenced by the actual disbursement of cash, or something of equal value, before it could be considered in making up the account of a corporation. It is interesting to note, however, that all definitions and decisions regarding the expression "actually paid," consider the matter from the standpoint of debtor and creditor, and not from the standpoint of the individual himself, or in this case, from within a corporation concerned solely with its own accounts from which alone the law requires this return for taxation to be made, and not taking into consideration the standpoint of the debtor.

It is clear that to hold that the phrase "actually paid within the

year" requires evidence of actual disbursement in cash during the year would prohibit anything like accurate returns being made by any corporation, and would render it impossible to carry out what is the main purpose of the law, because to subtract from the gross income the deductions specified in the statute, calculated on a cash basis, would give net income, on which the tax is to be measured, only when the entire business transacted by the corporation is done in cash and the transactions are completed every day. It is not believed that there is any such corporation in existence. The return, predicated on gross income received in cash and deductions represented by cash transactions will vary from the real net income somewhat in proportion as the business transacted by the corporation varies from the absolutely cash basis.

This is viewing the matter in its simplest aspect. When we contemplate the complications and intricacies of the business affairs of a great corporation, with its many dealings with other corporations and individuals which are never settled in cash, but are settled on somewhat the clearing-house plan; its many advances of funds and long-deferred statements of accounts, purchases of supplies and materials at one time, which are mixed with supplies and materials already on hand and those purchased at other times, and which are used and disbursed without any relation to their time of purchase, any attempt to follow each of these transactions out into the cashbook and to settle the accounts of such complicated actions of a corporation on the cashbook instead of on the ledger, would result in inextricable confusion, uncertainty, and inaccuracy, and the friction occasioned the business world by such an attempt would be a very serious proposition.

As a result of this reasoning, corporations have been divided into six classes, and the following definitions adopted:

1. (a) *Banks and other financial institutions.*—Gross income consists of the gross revenue derived from the operation and management of the business and property of the corporation making the return, together with all amounts of income (including dividends received on stock of other corporations, joint-stock companies, and associations subject to this tax), derived from all other sources as shown by the entries on its books from January 1 to December 31 of the year for which return is made.

(b) *Insurance companies.*—Same as 1 (a) above.

2. *Transportation companies.*—Same as 1 (a) above.

3. *Manufacturing companies.*—Gross income received during the year from all sources will consist of the total amount ascertained through an accounting that shows the difference between the price received for the goods as sold during the year and the

cost of such goods as manufactured. The cost of goods manufactured shall be ascertained by an addition of a charge to the account of the cost of goods as manufactured during the year of the sum of the inventory at beginning of the year, and a credit to the account of the sum of the inventory at the end of the year. To this amount should be added all items of income received during the year from other sources, including dividends received on stock of other corporations, joint-stock companies, and associations subject to this tax. In the determination of the cost of goods manufactured and sold as above such cost shall comprehend all charges for maintenance and operation of manufacturing plants and properties, but shall not embrace any allowances for depreciation or losses, which items shall be taken account of under the proper heading as a deduction.

4. *Mercantile companies.*—Gross amount of income received during the year from all sources consists of the total amount ascertained through inventory, or its equivalent, which shows the difference between the price received for goods sold and the cost of goods purchased during the year, with an addition of a charge to the account of the sum of the inventory at the beginning of the year and a credit to the account of the sum of the inventory at the end of the year. To this amount should be added all items of income received during the year from other sources, including dividends received on stock of other corporations, joint-stock companies, and associations subject to this tax. In determining this amount no account shall be taken of any allowances for depreciation or losses, which items shall be taken account of under the proper heading as a deduction.

5. *Miscellaneous.*—Gross income consists of the gross revenue derived from the operation and management of the business and property of the corporation making the return, together with all amounts of income (including dividends received on stock of other corporations, joint-stock companies, and associations subject to this tax) derived from all other sources, as shown by the entries on its books from January 1 to December 31 of the year for which return is made.

Relating to statutory deductions, the regulation is to the effect that the deductions authorized shall include all expense items under the various heads acknowledged as liabilities by the corporation making the return and entered as such on its books from January 1 to December 31 of the year for which return is made. It will appear, therefore, that the return is to be made up from the ledger and not the cashbook, and that entry on the ledger from January 1 to December 31 of the year for which return is made is the evidence which will determine whether or not an item is to be taken account of in making the return.

It is believed that this interpretation furnishes a practical working method by which the amount of income subject to the tax can be fairly and justly determined in every case.



Of course, in administering a law applying to so many taxpayers (lists prepared by collectors show something over 400,000 corporations which will have to make returns) some of the returns will be inaccurate. The causes of inaccuracy will be two: First, honest error; second, willful intent to defraud the Government of revenue. If an honest error is made in calculating the return for one year, it will be corrected if possible, and even if not corrected in one year it would more than probably correct itself later. Where fraudulent purpose is discovered, vigorous prosecution will follow. This bureau feels that in dealing with the incorporated business of the country it is dealing, in the main, with honest men. However, the regulations are drawn sufficiently rigid to restrain anyone who does not measure up to this standard.

The regulations do not call for specific methods of keeping accounts or any particular method of bookkeeping; the requirement is simply that the transaction be so recorded that accurate returns can be made therefrom and verified when necessary.

In many corporations, mercantile and manufacturing particularly, an inventory, or its equivalent, is essential at the close of each calendar year. The law specifically states that the tax shall be collected for the calendar year and no return for any other period can be accepted. Provision is however made for preparing returns for the present year, when no inventory or equivalent was taken at close of last calendar year. Provision is made for a method of fairly determining amount of loss and depreciation claimed; also for a fair adjustment of profit or loss in case of sale of capital assets acquired prior to January 1, 1909; also for properly accounting for materials and supplies, etc.

Great numbers of communications have been received relative to the publicity clause. While there is apparently some inconsistency between the two paragraphs of the law relating to making public the information received, the language of the law relating to filing returns for record and public inspection is so clear that the Bureau of Internal Revenue has no discretion whatever in the matter.

The forms and regulations will go to the collector of each district, who will send copies of the blanks and a copy of the regulations to every corporation whose name and address the collector has been able to secure. Failure to receive the blanks or any notice relative thereto will not excuse a corporation from making the return required by law, nor will it relieve it from penalties for failure so to do. If copies of blanks and regulations are not received on or about January 1, application should be made to the collector in whose district the principal office of the corporation is located, so that the return can be in the hands of the collector by the time required in the statute.

8 The regulations issued by the Commissioner of Internal Revenue are as follows:

## REGULATIONS

Relative to

### Excise Tax on Corporations, Joint Stock Companies, Associations and Insurance Companies

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Imposed by authority of Section 38

Act of August 5, 1909

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#### ARTICLE 1.

The attention of collectors and others is specially called to the fact that the tax imposed by this section of the law applies to all corporations, joint-stock companies, associations, or insurance companies described (except those specifically exempted), without reference to the kind of business carried on, and that the tax is to be computed upon the NET INCOME of such corporations, joint-stock companies, associations, and insurance companies, which shall be calculated by subtracting from the gross income received from all sources during the year certain deductions specifically set forth in the statute.

Every corporation, joint-stock company, association, or insurance company not specifically enumerated as exempt shall make the return required by law, whether it may have net income liable to tax or not.

In the case of corporations, joint-stock companies, associations, or insurance companies organized under the authority of the United States or any State or Territory thereof, including Alaska and District of Columbia, such net income relates not only to the business carried on within the confines of the United States, but to income received from business transacted in any foreign country as well. In case of corporations, joint-stock companies, and associations organized under the authority of foreign countries the terms "Gross income," "Net income," and "Authorized deductions" relate only to business transacted within the United States or any State or Territory thereof.



The following definitions and rules are given for determining the gross income of the various classes of corporations:

1 A. *Banks and other financial institutions.*—Gross income consists of the gross revenue derived from the operation and management of the business and property of the corporation making the return, together with all amounts of income (including dividends received on stock of other corporations, joint-stock companies, associations, and insurance companies subject to this tax) derived from all other sources, as shown by the entries on its books from January 1 to December 31 of the year for which return is made.

1 B. *Insurance companies.*—Same as 1 A above.

2. *Transportation companies.*—Same as 1 A above.

3. *Manufacturing companies.*—Gross income received during the year from all sources will consist of the total amount, ascertained through an accounting, that shows the difference between the price received for the goods as sold and the cost of such goods as manufactured. The cost of goods manufactured shall be ascertained by an addition of a charge to the account of the cost of goods as manufactured during the year of the sum of the inventory at beginning of the year and a credit to the account of the sum of the inventory at the end of the year. To this amount should be added all items of income received during the year from other sources, including dividends received on stock of other corporations, joint stock companies, associations, and insurance companies subject to this tax. In the determination of the cost of goods manufactured and sold as above such cost shall comprehend all charges for maintenance and operation of manufacturing plant, but shall not embrace allowances for depreciation of property nor for losses sustained which are to be taken account of in ascertaining the net income subject to tax under the proper heading in the authorized deductions.

4. *Mercantile companies.*—Gross amount of income received during the year from all sources consists of the total amount ascertained through inventory, or its equivalent, which shows the difference between the price received for goods sold and the cost of goods purchased during the year, with an addition of a charge to the account of the sum of the inventory at beginning of the year and a credit to the account of the sum of the inventory at the end of the year. To this amount should be added all items of income received during the year from other sources inclusive of dividends received on stock of other corporations, joint-stock companies, associations, and insurance companies subject to this tax. In determining this amount no account shall be taken of allowances for depreciation of property, nor for losses sustained which are to be taken account of in ascertaining the net income subject to tax under the proper heading in the authorized deductions.

5. *Miscellaneous.*—Gross income consists of the gross revenue derived from the operation and management of the business and property of the corporation making the return, together with all amounts of income (including dividends received on stock of other corporations, joint-stock companies, associations, and insurance companies subject to this tax) derived from all other sources as shown by the entries on the books from January 1 to December 31 of the year for which return is made.

It will be noted from these definitions that gross income is practically the same as gross profits, the only difference being that gross income is more inclusive, embracing as it does not only gross profits of the corporation, joint-stock company and association itself, but also all amounts of income received from other sources. It is immaterial whether any item of gross income is evidenced by cash receipts during the year or in such other manner as to entitle it to proper entry on the books of the corporation from January 1 to December 31 for the year in which return is made.

*Sale of capital assets.*—In ascertaining income derived from the sale of capital assets, if the assets were acquired subsequent to January 1, 1909, the difference between the selling price and the buying price shall constitute an item of gross income to be added to or subtracted from gross income according to whether the selling price was greater or less than the buying price. If the capital assets were acquired prior to January 1, 1909, the amount of increment or depreciation representing the difference between the selling and buying price is to be adjusted so as to fairly determine the proportion of the loss or gain arising subsequent to January 1, 1909, and which proportion shall be deducted from or added to the gross income for the year in which the sale was made. But for the purpose of determining the selling price, as provided in this section, there shall be added to the price actually realized on sale any amount which has already been set aside and deducted from gross income by way of depreciation as defined in article 4 and has not been paid out in making good such depreciation on the property sold.

Where a corporation is engaged in carrying on more than one class of business, gross income derived from the different classes of business shall be ascertained according to the definitions above, applicable thereto.

### ARTICLE 3.—*Net income.*

"Net income shall be ascertained by deducting from the gross amount of the income of such corporation, joint-stock company or association, or insurance company, received within the year from all sources, (first) all the ordinary and necessary expenses actually paid within the year out of income in the maintenance and operation of its business and properties, including all charges

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such as rentals or franchise payments required to be made as a condition to the continued use or possession of property; (second) all losses actually sustained within the year and not compensated by insurance or otherwise, including a reasonable allowance for depreciation of property, if any, and in the case of insurance companies the sums other than dividends, paid within the year on policy and annuity contracts and the net addition, if any, required by law to be made within the year to reserve funds; (third) interest actually paid within the year on its bonded or other indebtedness to an amount of such bonded and other indebtedness not exceeding the paid-up capital stock of such corporation, joint-stock company or association, or insurance company, outstanding at the close of the year, and in the case of a bank, banking association, or trust company, all interest actually paid by it within the year on deposits." In case of corporations, joint-stock companies, and associations organized under the laws of a foreign country, "the proportion of its paid-up capital stock outstanding at the close of the year which the gross amount of its income for the year from business transacted and capital invested within the United States and any of its Territories, Alaska, and the District of Columbia bears to the gross amount of its income derived from all sources within and without the United States; (fourth) all sums paid by it within the year for taxes imposed under the authority of the United States or of any State or Territory thereof, or imposed by the government of any foreign country as a condition to carrying on business therein; (fifth) all amounts received by it within the year as dividends upon stock of other corporations, joint stock companies or associations, or insurance companies, subject to the tax hereby imposed."

The section further provides:

That in the case of a corporation, joint-stock company, or association, or insurance company, organized under the laws of a foreign country, such net income shall be ascertained (by making like deductions) from the gross amount of its income received within the year from business transacted and its capital invested within the United States and any of its Territories, Alaska, and the District of Columbia.

Also that:

In the case of assessment insurance companies the actual deposit of sums with state or territorial officers, pursuant to law, as additions to guaranty or reserve fund, shall be treated as being payments required by law to reserve fund.

Also (third paragraph) that:

There shall be deducted from the amount of the net income of each of such corporations, joint-stock companies, or associations, or insurance companies, ascertained as provided in the foregoing paragraphs of this section, the sum of five thousand dollars.

12 The net income, therefore, is the remainder of the gross income after making the specified deductions.

#### ARTICLE 4.—*Deductions.*

The specified deductions actually paid within the year, set forth in the statute and as described in article 3 preceding, shall include all proper items of expenses and charges under the respective heads as designated. The amount returned for ordinary and necessary expenses actually paid within the year out of income in maintenance and operation of the business and properties of the corporation should not, however, embrace allowances for depreciation of fixed property which are otherwise to be taken account of under the proper heading in the authorized deductions, nor expenses paid within the year and charged to such allowances for depreciation credited in the current year or in previous years. In ascertaining expenses proper to be included in the deductions to be made under this article, corporations carrying materials and supplies on hand for use should include in such expenses the charges for materials and supplies only to the amount that the same are actually disbursed and used in operation and maintenance during the year for which the return is made.

It is immaterial whether the deductions are evidenced by actual disbursements in cash, or whether evidenced in such other way as to be properly acknowledged by the corporate officers and so entered on the books as to constitute a liability against the assets of the corporation, joint-stock company, association, or insurance company making the return.

*Losses.*—The deduction for losses must be in respect of losses actually sustained during the year and not compensated by insurance or otherwise. It must be based upon the difference between the cost value and salvage value of the property or assets, including in the latter value such amount, if any, as has in the current or previous years been set aside and deducted from gross income by way of depreciation as defined in the following section and not been paid out in making good such depreciation.

*Depreciation.*—The deduction for depreciation should be the estimated amount of the loss, accrued during the year to which the return relates, in the value of the property in respect of which such deduction is claimed that arises from exhaustion, wear and tear, or obsolescence out of the uses to which the property is put, and which loss has not been made good by payments for ordinary maintenance and repairs deducted under the heading of expenses of maintenance and operation or in the ascertainment of gross income. This estimate should be formed upon the assumed life of the property, its cost value, and its use. Expenses paid in any one year in making good exhaustion, wear and tear, or obsolescence in respect of which any deduction for depreciation is claimed must not be included in the deduction for expense of

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maintenance and operation of the property or in the ascertainment of gross income, but must be made out of accumulative allowances deducted for depreciation in current and previous years.

#### ARTICLE 5.—*Inventories.*

It will be noted that an inventory or its equivalent of materials, supplies, and merchandise on hand for use or sale at the close of each calendar year is essential in the case of certain corporations in order to determine the gross income, and in case of other corporations to determine their expenses of operation. Where such inventory or its equivalent was not taken at the close of the year 1908, a supplemental statement showing such inventory approximately must be submitted with the return on the regular form. Such supplemental statement shall be verified under oath by the treasurer or principal financial officer in submitting the same.

Where any item under any of the deductions is of an unusual nature a special explanatory note referring to such item shall be made and attached to the form at the appropriate place and made a part thereof by proper reference.

Paragraph 3 of said section 38 also provides:

and said tax shall be computed upon the remainder of said net income of such corporation, joint stock company or association, or insurance company, for the year ending December thirty-first, nineteen hundred and nine, and for each calendar year thereafter; and on or before the first day of March, nineteen hundred and ten, and the first day of March in each year thereafter, a true and accurate return under oath or affirmation of its president, vice-president, or other principal officer, and its treasurer or assistant treasurer, shall be made by each of the corporations, joint stock companies or associations, and insurance companies, subject to the tax imposed by this section, to the collector of internal revenue for the district in which such corporation, joint stock company or association, or insurance company, has its principal place of business, or, in the case of a corporation, joint stock company or association, or insurance company, organized under the laws of a foreign country, in the place where its principal business is carried on within the United States, in such form as the Commissioner of Internal Revenue, with the approval of the Secretary of Treasury, shall prescribe.

Each return so made is required to set forth:

(a) The total amount of the paid-up capital stock of such corporations, joint-stock companies or associations, or insurance companies, outstanding at the close of the year;

(b) The total amount of bonded and other indebtedness of such corporation, joint-stock company or association, or insurance company, at the close of the year;

(c) The gross amount of the income of such corporation, joint-stock company or association, or insurance company, re-

14ceived during the year from all sources, and if organized under the laws of a foreign country, the gross amount of its income received within the year from business transacted and capital invested within the United States and any of its territories, Alaska, and the District of Columbia.

Such returns are also required to set forth the items claimed as deductions (Article 4), also the net income after such deductions have been made.

#### ARTICLE 6.

Under the authority conferred by this act forms of return have been prescribed, in which the various items specified in the law are to be stated.

Blank forms of this return will be mailed to collectors and should be furnished to every corporation, not expressly excepted, on or before January 1, 1910, and on or before January 1st of each year thereafter. Failure on the part of any corporation, joint-stock company, association, or insurance company liable to this tax, to receive a blank form will not excuse it from making the return required by law, or relieve it from any penalties for failure to make the return in the prescribed time. Corporations not supplied with the proper forms for making the return should make application therefor to the collector of internal revenue in whose district is located its principal place of business. Each corporation should carefully prepare its return so as to fully and clearly set forth the data therein called for.

*Bookkeeping.*—No particular system of bookkeeping or accounting will be required by the Department. However, the business transacted by corporations, joint-stock companies, associations, or insurance companies must be so recorded that each and every item therein set forth may be readily verified by an examination of the books and accounts, where such examination is deemed necessary.

*Calendar year.*—As the law specifically provides that the tax imposed shall be computed on the net income during each "*calendar year*," returns of income based on any period other than the calendar year can not be accepted.

Corporations organized during the year or going into liquidation during the year should nevertheless render a sworn return on the prescribed form.

#### ARTICLE 7.

Collectors will see that as soon as each return made by any corporation is received a record on Form 632 is made, setting out the name of the corporation making the return, the nature of the principal business transacted, the location of principal place of business, with net income reported, and the date on which such return was received. The date of receipt in each case will be noted in the last column of that form, in which column the list



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on which assessment is made will also be noted. For this purpose the column so used may be subdivided, or the date of receipt of such returns may be noted in red ink over the date entered therein as to such assessment list.

Any collector will, whenever it appears advisable to do so, request that a revenue agent be specially designated to collect and furnish this office with such other data as, in his judgment, is necessary to determine the actual amount of tax to be assessed against any corporation, joint-stock company, or association which under the law set forth in these regulations is required to make return.

Such returns are required to be made not later than March 1 of each year, and any failure to comply with the law in this regard should be at once reported by the collector to the Commissioner of Internal Revenue.

To enable collectors to determine whether all returns due have been received, a careful canvass of each district should be made, and all corporations, joint-stock companies, and associations subject to the tax imposed should be listed as above directed.

#### ARTICLE 8.

For statistical purposes all such corporations, joint-stock companies, and associations will be classified as follows:

**CLASS A: *Financial and commercial.***—Including banks, banking associations, trust companies, guaranty and surety companies, title insurance companies, building associations (if for profit), and insurance companies, not specifically exempt.

**CLASS B: *Public service.***—Such as railroads, steamboat, ferryboat, and stage-line companies; pipe-line, gas, and electric-light companies; express, transportation, and storage companies; telegraph and telephone companies.

**CLASS C: *Industrial and manufacturing.***—Such as mining, lumber, and coke companies; rolling mills; foundry and machine shops; sawmills; flour, woolen, cotton, and other mills; manufacturers of cars, automobiles, elevators, agricultural implements, and all articles manufactured wholly or in part from metal, wood, or other material; manufacturers or refiners of sugar, molasses, sirups, or other products; ice and refrigerating companies; slaughterhouse, tannery, packing, or canning companies, etc.

**CLASS D: *Mercantile.***—Including all dealers (not otherwise classed as producers or manufacturers) in coal, lumber, grain, produce, and all goods, wares, and merchandise.

**CLASS E: *Miscellaneous.***—Such as architects, contractors, hotel, theater, or other companies, or associations, not otherwise classed.

When classified as above indicated the names of the various corporations, companies, and associations will be listed alpha-

16 betically, and will be numbered consecutively (commencing with No. 1 in *each* class), and in forwarding returns or papers subsequently rendered or submitted by such corporations or companies collectors will see that the same have placed thereon the designating class letter and number corresponding with those noted on the lists herein required to be furnished.

ARTICLE 9. *Examination of books, etc., by revenue agent.*

Paragraph 4 of said section 38 provides:

Fourth. Whenever evidence shall be produced before the Commissioner of Internal Revenue which in the opinion of the commissioner justifies the belief that the return made by any corporation, joint-stock company or association, or insurance company, is incorrect, or whenever any collector shall report to the Commissioner of Internal Revenue that any corporation, joint stock company or association, or insurance company has failed to make a return as required by law, the Commissioner of Internal Revenue may require from the corporation, joint stock company or association, or insurance company making such return such further information with reference to its capital, income, losses, and expenditures as he may deem expedient; and the Commissioner of Internal Revenue, for the purpose of ascertaining the correctness of such return or for the purpose of making a return where none has been made, is hereby authorized, by any regularly appointed revenue agent specially designated by him for that purpose, to examine any books and papers bearing upon the matters required to be included in the return of such corporation, joint stock company or association, or insurance company, and to require the attendance of any officer or employee of such corporation, joint stock company or association, or insurance company, and to take his testimony with reference to the matter required by law to be included in such return, with power to administer oaths to such person or persons; and the Commissioner of Internal Revenue may also invoke the aid of any court of the United States having jurisdiction to require the attendance of such officers or employees and the production of such books and papers. Upon the information so acquired the Commissioner of Internal Revenue may amend any return or make a return where none has been made. All proceedings taken by the Commissioner of Internal Revenue under the provisions of this section shall be subject to the approval of the Secretary of the Treasury.

ARTICLE 10.—*Assessment and collection of tax, etc.*

Paragraph 5 of said section 38 provides:

Fifth. All returns shall be retained by the Commissioner of Internal Revenue, who shall make assessments thereon; and in case of any return made with false or fraudulent intent, he shall add one hundred per centum of such tax, and in case of a refusal

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or neglect to make a return or to verify the same as aforesaid, he shall add fifty per centum of such tax. In case of neglect occasioned by the sickness or absence of an officer of such corporation, joint stock company or association, or insurance company, required to make said return, or for other sufficient reason, the collector may allow such further time for making and delivering such return as he may deem necessary, not exceeding thirty days. The amount so added to the tax shall be collected at the same time and in the same manner as the tax originally assessed unless the refusal, neglect, or falsity is discovered after the date for payment of said taxes, in which case the amount so added shall be paid by the delinquent corporation, joint stock company or association, or insurance company, immediately upon notice given by the collector. All assessments shall be made and the several corporations, joint stock companies or associations, or insurance companies, shall be notified of the amount for which they are respectively liable on or before the first day of June of each successive year, and said assessments shall be paid on or before the thirtieth day of June, except in cases of refusal or neglect to make such return, and in cases of false or fraudulent returns, in which cases the Commissioner of Internal Revenue shall, upon the discovery thereof, at any time within three years after said return is due, make a return upon information obtained as above provided for, and the assessment made by the Commissioner of Internal Revenue thereon shall be paid by such corporation, joint stock company or association, or insurance company immediately upon notification of the amount of such assessment; and to any sum or sums due and unpaid after the thirtieth day of June in any year, and for ten days after notice and demand thereof by the collector, there shall be added the sum of five per centum on the amount of tax unpaid and interest at the rate of one per centum per month upon said tax from the time the same becomes due.

Upon the receipt and verification of the returns rendered, the tax as ascertained to be due will be assessed as above prescribed; and notice of such assessment will be given and subsequent demand made (if necessary) on Forms 17 and 21, respectively.

In case of failure to make returns within the time and manner required by the statute, or where the return rendered is found or believed to be incorrect, action in such cases will be taken, as provided in paragraph 4 of the law.

The additional tax imposed by paragraph 5 of the law for failure to make the required return, or for making a false or fraudulent return, will in all cases be assessed as therein provided.

#### ARTICLE 11.—*Returns to constitute public records.*

Paragraph 6 of said section 38 provides:

Sixth. When the assessment shall be made, as provided in this section, the returns, together with any corrections thereof which

18 may have been made by the commissioner, shall be filed in the office of the Commissioner of Internal Revenue and shall constitute public records and be open to inspection as such.

#### ARTICLE 12.—*Penalties.*

Paragraphs 7 and 8 of section 38 provide:

Seventh. It shall be unlawful for any collector, deputy collector, agent, clerk, or other officer or employee of the United States to divulge or make known in any manner whatever not provided by law to any person any information obtained by him in the discharge of his official duty, or to divulge or make known in any manner not provided by law any document received, evidence taken, or report made under this section except upon the special direction of the President; and any offense against the foregoing provision shall be a misdemeanor and be punished by a fine not exceeding one thousand dollars, or by imprisonment not exceeding one year, or both, at the discretion of the court:

Eighth. If any of the corporations, joint stock companies or associations, or insurance companies, aforesaid, shall refuse or neglect to make a return at the time or times hereinbefore specified in each year, or shall render a false or fraudulent return, such corporation, joint stock company or association, or insurance company shall be liable to a penalty of not less than one thousand dollars and not exceeding ten thousand dollars.

Any person authorized by law to make, render, sign, or verify any return who makes any false or fraudulent return, or statement, with intent to defeat or evade the assessment required by this section to be made, shall be guilty of a misdemeanor, and shall be fined not exceeding one thousand dollars or be imprisoned not exceeding one year, or both, at the discretion of the court, with the costs of prosecution.

ARTICLE 13.—*Certain revenue laws made applicable, and jurisdictions conferred on United States courts to compel attendance of witnesses, etc.*

Paragraph 8 further provides:

All laws relating to the collection, remission, and refund of internal revenue taxes, so far as applicable to and not inconsistent with the provisions of this section, are hereby extended and made applicable to the tax imposed by this section.

Jurisdiction is hereby conferred upon the circuit and district courts of the United States for the district within which any person summoned under this section to appear to testify or to produce books, as aforesaid, shall reside, to compel such attendance, production of books, and testimony by appropriate process.

The tax assessed under the provisions of this act will be collected and will be receipted for on Form 1, as in the case of other assessed taxes. Unless paid within the time fixed by the statute, notice and demand should be at once issued, and, in case of nonpayment, distraint proceedings should be instituted without delay.

ROYAL E. CABELL, *Commissioner.*

Approved:

FRANKLIN MACVEAGH,  
*Secretary of the Treasury.*

[A complete copy of the text of the Federal Corporation Tax Law appeared in the Special August Number of THE CORPORATION TRUST COMPANY JOURNAL No. 11. A limited supply of this number is still on hand and copies may be obtained on request at any of our offices.]

## FEDERAL CORPORATION TAX

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We are prepared to assist counsel in the preparation and  
filing of the

### FEDERAL CORPORATION TAX RETURNS

Through our Federal Department with its principal office at  
37 Wall Street, New York

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THE COMPANY FOR LAWYERS

## The Corporation Trust Company

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### OFFICERS

HOWARD K. WOOD, President  
KENNETH K. McLAREN, Treasurer  
JOHN G. BOSTON, Secretary.  
HORACE S. GOULD, Assistant Secretary

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### SYSTEM

37 Wall Street, New York	135 Adams Street, Chicago
711 Tremont Building, Boston	15 Exchange Place, Jersey City
281 St. John Street, Portland, Me.	700 Land Title Bldg., Philadelphia
901 Market Street, Wilmington, Del.	922 Bank of Commerce Bldg., St. Louis
95 Gresham Street, London, E. C.	304 Market Street, Camden, N. J.
522 La Mutua, Mexico City	



